

Half-Year Financial Report 2020

BKS Bank



Table of Contents

BKS BANK AT A GLANCE 3

Preface by the Chairwoman of the Management Board 4

GROUP MANAGEMENT REPORT 7

Economic Environment 8

Assets, Equity and Liabilities 9

Result of Operations 11

Segment Report 13

Consolidated Own Funds 15

Risk Management 16

Outlook 17

CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2020 19

Consolidated Statement of Comprehensive Income 1 January to 30 June 2020 20

Consolidated Balance Sheet for the Period ended 30 June 2020 23

Consolidated Statement of Changes in Equity 24

Consolidated Statement of Cash Flows 25

Notes to the Consolidated Financial Statements of BKS Bank 26

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS 44

FINANCIAL CALENDAR 2020 45

Forward-looking statements

This half-year financial report 2020 contains statements and forecasts that refer to the future development of the BKS Bank Group. Such forecasts are estimates made on the basis of all the information available to us on the copy deadline date, which was 26 August 2020. Should the assumptions on which the forecasts are based fail to materialize or the risks occur, the actual results may differ from those currently expected. This interim report does not constitute a recommendation to buy or sell shares of BKS Bank AG.

Disclaimer

This half-year financial report 2020 does not require auditing and, therefore, has not been audited or examined in full by an auditor. The German version of this report is the authentic version and is relevant in all legal aspects. This half-year financial report is an unaudited translation from the German into English. In the event of any discrepancies, the German version shall prevail.

Minimal deviations of the values in the tables and charts are due to rounding differences.

BKS Bank at a Glance

INCOME STATEMENT in €m	HY1 2019	HY1 2020	± in %
Net interest income	70.5	69.6	-1.3
Impairment charges	-13.2	-15.4	16.6
Net fee and commission income	29.2	32.0	9.4
General administrative expenses	-61.4	-60.4	-1.6
Profit for the period before tax	46.6	23.2	-50.2
Profit for the period after tax	42.1	19.8	-53.0
BALANCE SHEET in €m	31/12/2019	30/06/2020	± in %
Total assets	8,857.6	9,292.7	4.9
Receivables from customers after impairment charges	6,288.1	6,343.1	0.9
Primary deposits	6,668.3	6,814.7	2.2
• thereof savings deposits	1,413.5	1,396.8	-1.2
• thereof securitised liabilities incl. subordinated debt capital	854.4	900.5	5.4
Equity	1,301.5	1,309.5	0.6
Customer funds under management	18,548.0	17,940.9	-3.3
• thereof on custody accounts	11,879.7	11,126.2	-6.3
OWN FUNDS UNDER CRR IN €M	31/12/2019	30/06/2020	± in % (ppt)
Total risk exposure amount	5,449.6	5,549.2	1.8
Own funds	881.4	896.1	1.7
• thereof common equity tier 1 (CET1) capital	629.6	632.8	0.5
• thereof total tier 1 capital (CET1+AT1)	690.8	692.0	0.2
Tier 1 capital ratio (in %)	12.7	12.5	-0.2
Total capital ratio (in %)	16.2	16.2	-
PERFORMANCE RATIOS	31/12/2019	30/06/2020	± in % (ppt)
Return on equity after tax	7.4	4.1	-3.3
Return on assets after tax	1.1	0.6	-0.5
Cost/Income ratio (expenses/income coefficient)	50.7	61.0	10.3
Risk/earnings ratio (credit risk/net interest income)	10.2	22.1	11.9
Non-performing loan ratio (NPL ratio)	2.4	2.1	-0.3
Net stable funding ratio (NSFR)	112.4	113.8	1.4
Liquidity coverage ratio (LCR)	151.8	154.7	2.9
Leverage ratio	7.8	7.3	-0.5
RESOURCES	31/12/2019	30/06/2020	
Average number of staff	962	961	
Number of branches	63	63	
THE BKS BANK'S SHARE	31/12/2019	30/06/2020	
Number of no-par ordinary shares (ISIN AT0000624705)	41,142,900	41,142,900	
Number of no-par preference shares (ISIN AT0000624739)	1,800,000	1,800,000	
High (ordinary/preference share) in €	17.2/17.0	16.0/15.0	
Low (ordinary/preference share) in €	15.0/13.4	11.3/10.3	
Close (ordinary/preference share) in €	16.0/14.3	13.1/12.7	
Market capitalisation in €m	684.0	561.8	

Dear Shareholders,



In this financial report, BKS Bank reviews a period with extraordinary developments in the first half of 2020. The Covid-19 virus impacted all of our lives and has had severely negative effects on society and the economy. Since the end of the lockdown, economic life has picked up again but is still far from its previous activity levels. The Austrian Institute of Economic Research (Wifo) forecasts that Austria's economy will shrink by -7.0% in 2020, or much more steeply than during the financial and economic crisis 2008/09. In the second quarter, gross domestic product even decreased by 12% compared to the same period of 2019.

Considering this backdrop, we are satisfied with the economic development of BKS Bank, especially in the second quarter. On a positive note, net fee and commission income increased on the back of the positive development of commissions from the securities business which rose by 9.4% to EUR 32.0 million. The slight decline in net interest income after impairment charges is satisfactory in the light of the economic situation. Less satisfactory is the decline in income from equity investments and the result from financial assets/liabilities. These are also the main causes for the much lower year-on-year result for the period.

LOOKING AHEAD

As called for by the current situation, we took strong measures to cut spending. This move made it possible for us to reduce general administrative expenses in the first half of the year by almost EUR 1.0 million. Nonetheless, we continue to pursue our strategic projects enthusiastically as illustrated by the examples below:

- Our digital bank, "BKS Bank Connect" went live and acquired its first customers.
- We enlarged our digital range of services by adding the online option for lease finance contracts and investment fund savings plans.
- The product "BKS Natur & Zukunft-Konto" is a further addition to our sustainable product line, and we also floated a green bond on the market.

- The roll-out of our new brand style is well under way, and key elements such as our website already feature the new branding. As you know: “Customers are at the heart of our business.”
- On our international markets, we will have completed the reorientation of our organisational structure to customer needs – which we already put into practice in Austria in 2019 – by the end of the third quarter. A further branch will soon be opened in Zagreb.

EXCELLENCE

I am pleased to report that BKS Bank has received several awards this year. We successfully completed certification as a “Green Brand”. “Green Brand” is a quality seal registered as an EU Certification Mark and conferred to ecologically sustainable companies. We are also happy that Recommender attributed us with “excellent customer orientation” and that our ordinary share was included in the sustainability index VÖNIX of the Vienna Stock Exchange in May for the fifth time in a row.

CONVERSION OF PREFERENCE SHARES INTO ORDINARY SHARES

The decision to convert preference shares into ordinary shares adopted at the 81st Annual General Meeting and the general meeting of preference shareholders will soon be implemented. This action will not change the share capital of EUR 85,885,800, which will be represented in the future exclusively by 42,942,900 ordinary bearer shares. Unfortunately, the last Annual General Meeting was prolonged to an unbearable length by the endless questions of Unicredit Bank Austria representatives. Despite the extensive answers given, a number of resolutions were contested – and thus the pointless carousel of lawsuits continues.

CHANGES TO THE SUPERVISORY BOARD

I would like to thank Karl Samstag for his many years of work for BKS Bank. Karl Samstag left the Supervisory Board with the close of the Annual General Meeting. The new appointments to the Supervisory Board are Susanne Kalss and Hannes Bogner. Klaus Wallner was re-elected. With the newly elected and re-elected members, the Supervisory Board of BKS Bank has a higher number of women on it. The ratio of women is now 42.9%, and therefore, clearly above the required statutory ratio of 30%. My special thanks also go to all BKS Bank employees. Since the outbreak of the corona pandemic, they have worked extremely hard because banks are classified as system-relevant services. Regardless of whether at branches, home office or our alternative premises, the commitment of our staff has been incredible and impressively demonstrates the importance of our brand values in these times: strong regional ties and strong in relationships. But I have saved the most important piece of information for the last: no employee of the bank has become life-threateningly ill and no one has lost their job due to the coronavirus.

Cordially,



Herta Stockbauer
Chairwoman of the Management Board



Group Management Report

Economic Environment **8**

Assets, Equity and Liabilities **9**

Result of Operations **11**

Segment Report **13**

Consolidated Own Funds **15**

Risk Management **16**

Outlook **17**

Economic Environment

COVID-19 TRIGGERS MASSIVE PLUNGE IN GLOBAL ECONOMY

While in the first quarter of 2020 it was only possible to estimate the consequences of the lockdown due to Covid-19 to a limited extent, the full impact only became fully clear in the second quarter. In the US, economic output plunged in the second quarter despite the massive economic stimulus measures taken. From April to June, gross domestic product (GDP) decreased by 32.9% projected to the full year. This has been the most severe economic contraction since the start of recordings.

In the entire euro zone, the economy was strongly affected in the second quarter and contracted by 12.1%. The German economy shrunk from April to June by 10.1%, while in France GDP dropped by 13.8%. The situation is similar in Austria. The domestic economy decreased in Q2 by 12.8% according to Wifo's latest quick estimate. The economic crisis is affecting the different industries to varying extents. While added value in trade, transport, accommodations and restaurants dropped by a disquieting 27.8%, the information and communications, banking and insurance sectors are showing more resilience to the crisis. The situation is also dramatic on Austria's labour market. A number of 432,000 persons are currently out of work or in training programmes, and a further 474,600 persons are on short-time working hours. Recovery is progressing only slowly.

ECONOMIC STIMULUS PACKAGES TO COMBAT THE CRISIS

The euro and also the US key lending rates will remain at all-time lows for now. On both sides of the Atlantic, no one expects interest rates to rise before 2023. The US Federal Reserve (Fed) intends to continue its monthly purchasing programme of USD 120 billion at the same pace as up to now. US Fed Chief Powell is indicating a willingness to make new purchases to cover an even higher level of government debt. This move will also be necessary because a fifth economic package of over USD one trillion is being planned to boost internal demand – the backbone of the US economy.

In Europe, the heads of state and governments also reached a historic agreement in July on a budgetary and finance package. After a four-day special summit, the 27 member states agreed to a financial aid package of EUR 1.8 trillion. The European Union hopes to jointly master the historic economic slump and preserve cohesion within the EU single market. The financial aid measures are also designed to create impulses to promote the transformation to a digital and climate-friendly economy, a development that we warmly welcome.

CAPITAL MARKETS IN RECOVERY MODE

The capital markets went into recovery mode in the second quarter despite the prevailing economic conditions. After equity, bond and also commodity markets plunged in the first quarter, all asset classes gained ground in the second quarter of 2020. Global equities in euro, for example, had dropped by -29.1% on 23 March 2020, but by the end of June, the losses had decreased to only -6.7%. German and Austrian stocks lost some 36% and 49%, respectively, by the end of March. At the end of June, the German DAX index recovered to roughly -7% - despite the Wirecard scandal. The recovery of Austrian stocks was not as strong, and the losses were still -29% on 30 June. US and Chinese stocks recovered faster and were trading at -3.1% and -2.1% at the end of June versus the start of the year. Most bond segments also recovered. The top performers were convertible bonds.

Wide fluctuations were seen in commodity prices in the second quarter. At present, gold as a safe haven currency is trading at highs not seen in almost a decade. At the end of June, the gold price rose to USD 1,780.96 per ounce (+17.2% in EUR). The development of energy commodities was more volatile. The price of American crude West Texas Intermediate (WTI) even dropped into negative territory at times. By the end of the second quarter, the price of crude oil had stabilized again.

Assets, Equity and Liabilities

Total assets of the BKS Bank Group were EUR 9.29 billion as at 30 June 2020 which is an increase by 4.9% versus 31 December 2019. The increase resulted from the high volume of cash reserves (EUR +198.2 million) and from higher receivables from credit institutions (EUR +132.4 million). The primary deposits reached an all-time high of EUR 6.8 billion.

ASSETS

Enormous demand for bridge loans

The global economic and health crisis caused by the coronavirus has severely affected many of our customers. During the corona lockdown, numerous government support measures were created and put into practice by the banks within just a short period. The exemplary commitment of our staff made it possible for us to make an important contribution to the stabilization of the economy and to provide our customers with the necessary bridge loans and loan repayment deferrals. In the period from April to the end of June, we processed 3,500 repayment deferrals in the lending and leasing business in Austria and abroad, and furthermore granted bridge loans with a volume of some EUR 100 million. Contrary to expectations, new business in lending developed very solidly in the first six months despite the Covid-19 pandemic. Around EUR 1.0 billion in new loans were granted in Austria and in our foreign markets. On balance though, growth in lending was only moderate, because especially corporate customers started reducing lines of credit prematurely or did not (yet) use them. Receivables from customers before impairment charges for loans and advances attained EUR 6.4 billion at the end of June, which is an increase of 0.9%.

The development was different for receivables from other banks. In the first half of 2020, we increased the volume of receivables in this item by two thirds to EUR 332.7 million, because we deposited liquidity peaks with banks featuring first-rate credit ratings. The rise in cash reserves by EUR 550.8 million to EUR 749.0 million (+36.0%) results from the high volume of deposits with central banks.

As regards impairment charges for loans and advances to customers, the volume increased slightly from EUR 90.7 million to EUR 91.8 million (+1.2%). Our loan portfolio has a solid quality as seen in the renewed drop in the NPL ratio of 2.1%.

Thanks to our efforts to continuously lower the share of loans in Swiss francs, the ratio of foreign currency loans was only 1.7% on 30 June 2020.

Online lease finance transactions

Despite the corona pandemic, we did not waver from our digitalisation strategy. Since the beginning of June, we have been offering our Austrian retail and corporate customers the possibility of entering into automobile leases completely online. The programme started successfully, and we have already processed 35 applications through this new digital channel. In the first half of the year, the leasing business of our Austrian and foreign subsidiaries has been slightly subdued since the outbreak of Covid-19 pandemic, but all of our subsidiaries nonetheless achieved growth. Overall, the present value of the leasing volume of the Group was EUR 527.9 million which is an increase of 2.0% over 31 December 2019.

High level of liquidity reserves

We increased the volume in our portfolio of debt securities and other fixed-income securities by 3.6% to EUR 922.3 million to strengthen our liquidity reserves. The liquidity reserves in the form of high-quality liquid assets achieved an excellent level of EUR 1,548.4 million on 30 June 2020.

As at 30 June 2020, the share of investments in entities accounted for using the equity method was at the same level as at year-end 2019 at EUR 635.4 million.

Since the introduction of the IFRS 16 leasing standard, right-of-use assets from rental contracts have been recognized as assets and the related payment obligations as leasing liabilities at their respective present values on the balance sheet. Capitalised right-of-use assets are recognized under property, plant and equipment and depreciated over their useful life. The carrying amount of this right-of-use was EUR 22.1 million on the reporting date.

EQUITY AND LIABILITIES

High volume of primary deposits again

The corona crisis has not had any effect on the development of primary deposits up to now. On the contrary: at the end of the first half-year, primary deposits increased by 2.2% to EUR 6.8 billion. The degree of trust placed in us by customers makes us very proud, but there is nonetheless a bitter aftertaste. Liquidity surpluses can only be deposited with the ECB at a negative interest rate of -0.5%, which is bad for profitability.

Payables to customers were influenced once again by term and sight deposits, which rose by 2.7% to EUR 4.5 billion versus year-end 2019. Sight deposits have become a popular form of investment for both retail and corporate customers. The volume rose by 6.9% to EUR 3.6 billion in the first half of 2020. Corporate customers are using sight deposits to invest short-term liquidity surpluses, while for retail customers, it is important to be able to access their savings digitally regardless of when or where they are. Therefore, we have been seeing rising volumes on the 'Mein-Geld-Konto' accounts for several years. As at 30 June 2020, we managed EUR 407.1 million on 'Mein Geld-Konto' accounts which is a rise by 5.6% versus year-end 2019. The volume on savings passbooks stagnated by contrast and was EUR 1.4 billion at the end of June.

The issuing business was very satisfactory in the past six months. During the reporting period, liabilities evidenced by paper increased by 6.6% to EUR 665.2 million, while subordinated capital rose by 2.1% to EUR 235.3 million. We are one of the most sustainable banks in the world. Our numerous sustainability activities are reflected also in a large range of sustainable products. At the end of June, we issued the fourth Green Bond with an outstanding volume of EUR 3.0 million for investors who want to invest responsibly.

The item Other liabilities includes leasing liabilities in an amount of EUR 22.3 million.

Consolidated shareholders' equity was EUR 1.3 billion at the end of June and thus remained at the preceding year's level.

Result of Operations

BKS Bank attained solid results in the first half of the year 2020 despite the severe economic crisis. Earnings for the period were much lower compared to the preceding year's level, but the decrease in earnings is due mainly to the special effects of the investments accounted for using the equity method and to the high volatility on the financial markets. The operating business – especially the commission business – developed satisfactorily.

SPECIAL EFFECTS CAUSE DECLINE IN EARNINGS

Consolidated profit after tax was lower by half compared to the preceding year at EUR 19.8 million. On the one hand, the decline is due to the deterioration of the results from investments in entities accounted for using the equity method which declined by EUR 18.1 million to EUR 2.5 million. Our partner bank, Oberbank AG, which is accounted for by the equity method, posted a loss in the first quarter caused mainly by the economic difficulties of voestapline. On the other hand, the hefty turbulence on international stock markets at the start of the corona pandemic resulted in massive losses that have not yet been fully recuperated. The profit/loss from financial assets/liabilities in the first half-year was only slightly negative at EUR -0.1 million, while in the first quarter, it had posted a loss of EUR 6.4 million.

Interest income decreased by €k 494.2 due to lower investment returns. At the same time, interest expenses rose slightly by €k 418.5. The two effects resulted in net interest income before impairment charges of EUR 69.6 million, which is a drop by EUR 0.9 million or 1.3%.

Impairment charges are an important component of profit or loss. We believe that credit quality will continue to worsen in the coming months due to the tense economic situation. A forward-looking approach was selected for calculating impairment charges. In accordance with the provisions of IFRS 9.B5.5.1 ff, we created models for the sectors the most severely affected by the Covid-19 pandemic with stage migrations to lower-grade stages. The result was a transfer volume of EUR 209.6 million from stage 1 to stage 2 and an additional expected credit loss of EUR 2.5 million. We set aside impairment charges totalling EUR 15.4 million (+16.6%) as at 30 June 2020. Net interest income decreased accordingly after impairment charges from EUR 57.3 million to EUR 54.2 million, which is a minus of 5.4%.

By contrast, net fee and commission income developed positively. We achieved a clear increase in this important item by 9.4% to EUR 32.0 million. Earnings rose very satisfactorily especially in the securities business (+23.2%), because the higher volatility resulted in more transactions. Surprisingly, the corona crisis has had noticeable impact on the strategically critical business area of payment services. Growth had been stable in this segment for years. The lockdown due to the corona crisis caused massive declines in the number of transactions in the corporate and business segment, with results for payment services stagnating at EUR 10.7 million which is around the same level as in the preceding year. However, we assume that this is a temporary development and we will be able to report figures in line with projections for the third quarter. Commissions on loans increased from EUR 8.4 million to EUR 9.7 million, while commissions on foreign exchange operations were EUR 1.4 million which is slightly lower than in the same period of 2019.

GENERAL ADMINISTRATIVE EXPENSES DECLINE

As regards costs, we saved EUR 1.0 million in the first half of the year. The decrease was achieved, among other things, by the rigorous reduction of overtime working hour and the consumption of residual vacation days as well as the reversal of provisions for anniversary funds and survivor's pensions. Administrative expenses stood at EUR 60.4 million as at 30 June 2020. In the first half-year, we offered secure jobs to 961 employees (in full-time equivalents).

HIGHER ALLOCATION TO DEPOSIT INSURANCE SCHEME

The result of other operating income/expenses deteriorated by EUR 3.0 million to EUR -6.5. The bankruptcy of a bank in Burgenland triggered the deployment of the deposit insurance scheme in Austria (Einlagensicherung Austria, ESA) to cover the deposit claims from customers. The member banks of ESA are under the obligation to contribute additional funds to the deposit insurance scheme over the next five years. For BKS Bank this means additional costs of some EUR 1.4 million per year. BKS Bank has taken the share it must pay for 2020 into account in the half-year report.

PERFORMANCE RATIOS WORSEN

Key performance ratios painted the following picture as at 30 June 2020: return on equity (RoE) after tax was 4.1% and return on assets (RoA) after tax was 0.6%.

The cost/income ratio was 61.0% and thus clearly higher than at year-end 2019 (50.7%). The reason for the increase resulted from the lower net interest income and the additional regulatory burden. The risk/earnings ratio rose from 10.2% to 22.1%, because the lower net interest income is also seen in this ratio while risk costs are rising.

The NPL ratio was 2.1% as at 30 June 2020. The leverage ratio was 7.3%, and therefore, considerably higher than the required statutory ratio of 3.0%. This is also true for the liquidity coverage ratio (LCR) that reached 154.7% and also surpassed the regulatory requirement of 100%.

The tier 1 capital ratio at the end of June was 12.5% and the total capital ratio was 16.2%. The two ratios stayed stable in comparison to the year-end level. In the coming months, we will have to master even greater challenges created by the Covid-19 crisis, but thanks to our solid capital base we are well prepared.

Segment Report

The segment report has three parts: Corporate and Business Banking, Retail Banking and Financial Markets. Corporate and Business Banking – BKS Bank Group’s most successful segment by far – performed satisfactorily in the first half of the year despite the global coronavirus crisis. The result in the Financial Markets segment is burdened by special effects while profitability in Retail Banking continued to stabilize.

CORPORATE AND BUSINESS BANKING

Personal services and absolute reliability are key elements of our success in Corporate and Business Banking in which we offer a wide range of innovative digital products and services – enlarged by the digital vehicle leasing functionality in the second quarter. The combination of personal advice and digital services has proven sound policy. On 30 June 2020, we served some 24,200 customers who placed their trust in our highly experienced experts.

Satisfactory segment result

In Corporate and Business Banking, we have been faced with enormous challenges in the past weeks since the outbreak of the Covid-19 pandemic. We conducted numerous advisory talks with our customers and implemented the diverse support measures initiated by governments in Austria and abroad. Our many years of experience with financial assistance schemes and our excellent contacts to the funding agencies have proven extremely useful during these times. Therefore, in the first half of the year we attained a satisfactory segment result. Compared to the same period of the preceding year, the result was also solid at EUR 30.5 million. The two key pillars of income – net interest income and net fee and commission income – developed very positively considering the challenging economic situation and reached EUR 54.5 million (+3.2%) and EUR 16.7 million (+3.9%), respectively. Although the risk situation of our corporate and business customers is still inconspicuous, we have adjusted risk provisions to the Covid-19 situation looking forward and in line with applicable IFRS requirements: we allocated a total of EUR 14.7 million as at 30 June 2020 which is an increase by 12.3% over the previous year. General administrative expenses rose by EUR 0.7 million to EUR 26.3 million.

The segment-specific performance indicators developed as follows: return on equity decreased year on year by 0.5%-points and was 14.6% on 30 June 2020. The cost/income ratio was 36.7% and thus at the same level as in the preceding year, while the risk/earnings ratio increased by 2.2%-points to 26.9% due to the higher impairment charges for credit losses.

RETAIL BANKING

Personal services and digital products as success factors

In the Retail Banking segment, we focus on a combination of personal advice and innovative product and services. This strategy has proven very effective especially during the coronavirus crisis. The transaction figures for digital applications have surged. Payment services transactions using the BKS App rose by an impressive 85% in the first half of the year, while the use of the BKS debit card for cashless payments increased by 11.0% during the same period and digital securities transactions even rose by 200%. During the crisis months, we stayed on course with our digitalisation strategy and successfully introduced modern payment systems such as Apple Pay and Garmin Pay. We also enlarged our digital range of products and created the opportunity for our customers to invest in investment fund products completely online.

We provide services to private individuals and members of the healthcare professions in retail banking. As at 30 June 2020, we served some 167,000 customers in this segment.

Substantial improvement in segment result

We are pleased to report that the retail segment is again profitable, and the segment result reached EUR 2.3 million on 30 June 2020. By way of comparison, the figure for the preceding year had still been negative at EUR -0.2 million. The good development of earnings was supported by the higher net interest income (EUR 14.2 million; +7.0%) and by the robust increase in net fee and commission income (EUR 14.6 million; +18.1%). The securities business developed especially well in the first half the year. In Austria as well as in Slovenia, we recorded a considerably higher number of transactions executed. The result from the securities business was EUR 6.8 million and made a substantial contribution to net fee and commission income.

The risk situation for retail loans is generally more relaxed than for corporate loans, and risk costs were excellent again at only EUR 0.3 million in the first half of the year. Administrative expenses changed versus the preceding year marginally by 1.2% and amounted to EUR 27.0 million for the first six months of the year.

The segment-specific ratios improved as at 30 June 2020 due to the positive segment result as follows: return on equity was 4.3%, the cost/income ratio improved to 91.5%, while the risk/earnings ratio was only 2.0%.

FINANCIAL MARKETS

The main sources of earnings in the Financial Markets segment include income from the management of term structures, returns on the treasury portfolio, and contributions from entities consolidated using the equity method. Proprietary trading is not at the focus of our business activities.

Segment result burdened by special effects

The Financial Markets segment closed the first half-year 2020 slightly negative and profit for the period before tax was EUR -2.7 million. The following factors played a role in the segment result. First, net interest income, which contains the returns from entities accounted for using the equity method, was much lower at EUR 1.4 million than in the preceding year (EUR 23.3 million). For the first quarter of 2020, Oberbank AG published – as already mentioned – a negative result for the period. The effects of this negative contribution to results will stay with us for the entire year. Another factor that put a damper on earnings were the stock markets, which suffered a massive plunge at the end of March due to the corona crisis. It has not yet been possible to fully offset the valuation losses. On 30 June 2020, the profit/loss from financial assets/liabilities was slightly negative at EUR -0.1 million.

The allocation for expected credit loss for receivables from banks and securities was EUR 0.4 million. General administrative expenses rose to EUR 4.9 million due to other administrative costs.

Consolidated Own Funds

BKS Bank calculates the own funds ratio and total risk exposure according to the provisions of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD). The calculation of own funds requirements for credit risk, for market risk and for operational risk is done using the standardised approach.

As a result of the Supervisory Review and Evaluation Process (SREP) conducted by the Austrian Financial Market Authority (FMA), BKS Bank was required to meet a minimum requirement for common equity tier 1 capital (CET1) of 5.5% and of 9.7% for the total capital ratio as at 30 June 2020. The capital ratios attained as at 30 June 2020 clearly exceeded these thresholds.

Common equity tier 1 capital (CET1) was EUR 632.8 million and the CET1 ratio was 11.4% on 30 June 2020. Additional tier 1 capital was EUR 59.2 million. Including supplementary capital (tier 2) of EUR 204.1 million, the bank's total own funds came to EUR 896.1 million. The total capital ratio was 16.2%, which is the same as at year-end 2019.

Please note that as auditing is not mandatory for this half-year report, it has not been audited or reviewed by an auditor. Therefore, the proportionate share of the profit for the period in the first half of the year has not been allocated to own funds.

BKS BANK GROUP OF CREDIT INSTITUTIONS: OWN FUNDS PURSUANT TO CRR

in €m	31/12/2019	30/06/2020
Share capital	83.4	83.0
Reserves net of intangible assets	1,134.0	1,134.2
Deductions	-587.8	-584.3
Common equity tier 1 capital (CET1)	629.6	632.8
Common equity tier 1 capital ratio	11.6%	11.4%
Hybrid capital	6.0	4.0
AT1 note	55.2	55.2
Additional tier 1 capital	61.2	59.2
Tier 1 capital (CET1 + AT1)	690.8	692.0
Tier 1 capital ratio	12.7%	12.5%
Tier 2 capital	190.6	204.1
Total own funds	881.4	896.1
Total capital ratio	16.2%	16.2%
Total risk exposure amount	5,449.6	5,549.2

The MREL ratio stands for the minimum requirement for own funds and eligible liabilities and its purpose is to ensure the proper winding up of banks should this become necessary. The minimum requirement for the MREL ratio is made up of the loss-absorbing amount (LAA) and the recapitalisation amount (RCA), and is supplemented by the premium for maintaining market confidence (MCC).

The Financial Market Authority (FMA) defined a minimum amount for BKS Bank for own funds and eligible liabilities of 14.99% of the total liabilities and own funds (total liabilities and own funds, TLOF) on a consolidated basis. This ratio must be attained by 1 January 2022 pursuant to the Official Notice of the FMA of 18 June 2020 and must be complied with from this point forward. The ratio at BKS Bank was 17.1% on the reporting date.

Risk Management

Quantitative information on risk management is based on the internal report regarding overall risk management and is presented in the Notes starting on page 36. Qualitative information is available in the Annual Report for the period ended 31 December 2019 and in the Disclosure Report 2019 (CRR) available at www.bks.at/investor-relations.

Outlook

UNCERTAIN OUTLOOK FOR ECONOMIC DEVELOPMENT

The development of the global economy hinges largely on how successful the actions to contain the coronavirus will be. The International Monetary Fund (IMF) states in its latest forecast that **global economic output** is likely to shrink this year by 4.9%, before it starts to grow again in 2021 by 5.4%. According to the IMF, the world is currently experiencing “a crisis like no other”. The economic recovery that will subsequently set in is expected to be slower than had been hoped for only a few weeks ago.

The IMF estimates that the **US economy** could shrink in the current year by a total of 8.0%, with the forecast for the **euro area** being even more pessimistic and predicting a contraction of 10.2%. However, the economy is expected to expand again in the coming year, but the pace of recovery will be weaker than originally expected at +4.5% for the US and +6.0% for the euro area.

Despite the swift and rigorous measures taken by the Austrian government to contain the coronavirus, **Austria's economy** is also in a recession. The Austrian Institute for Advanced Studies (IHS) expects economic output to contract by 7.3% in 2020. If there is a swift recovery, GDP might decrease by only 6.4% this year. Currently, the signals are encouraging.

The Covid-19 pandemic has triggered an unprecedented health and economic crisis that is holding the world in a thrall of fear. In these exceptional times, it is therefore hard to make reliable statements on the further course of economic development.

CAPITAL MARKETS EXPECTATIONS

There are no alternatives to stock investments in the near future. The reasons are a lack of alternative investment options and the persistently low interests. Considering the economic stimuli measures being taken all over the world and the rising debt levels these measures entail, there can be no hopes of higher interest rates for now. This means no dramatic plunges on stock markets – especially longer-term ones – are to be expected. The risk factors for stocks are still a second pandemic wave and a surge in of insolvencies in the fall. Therefore, we expect heightened volatility to continue.

Some of the more conservative bond segments gained enormously in appeal in March due to the corona crisis, but this has meanwhile subsided again. Yields on government bonds as well as on conservative corporate bonds also declined. European government bonds have even moved deep into negative territory across most maturities.

A brief look at the development of commodity prices shows that these seem have to bottomed out after the last decline and have been trending sideways ever since.

The price of gold climbed to new all-time highs in USD and in EUR. Consolidation is possible here as well – at least in the short term.

ECONOMIC CRISIS PUTS DAMPER ON EARNINGS EXPECTATIONS

The past few months have been very demanding, and the coming months will not be any easier. The Covid-19 crisis has caused severe economic distortions that will have an impact on our profitability, of course. We expect a positive result for the financial year 2020, but it will be substantially lower than the profit achieved in the record-breaking year 2019.

Our assessments are based on the assumption that risk costs will increase due to a higher number of bankruptcies among companies and individuals. In the lending business, the situation remains tense due to the zero-interest rate policy. Central banks have responded to the global economic contraction with the massive enlargement of bond-buying programmes. Therefore, the expansive monetary policy will continue to keep interest rates at zero. Economic downturns usually also cause capital investment decisions to be postponed. For this reason, our medium-term projections assume that demand for loans will be subdued. Our assessment of the situation in the fee and commission business is different. In the past few months, the securities business has picked up considerably. We expect this trend to continue albeit at a slower pace in the second half of the year. Revenues from payment services are expected to stabilize in the second half of the year, and therefore, we expect contributions to earnings to increase again.

There is no doubt that current economic conditions are not encouraging, but we look towards the future with confidence. We are an independent, reliable and stable bank that understands the needs and fears of our customers. We have a strong equity base, and this will help us overcome the crisis. Naturally, we are also working on reducing costs and deploying our resources optimally.

We are moving at full speed to advance our key strategic projects. At the branches, we are working intensely to simplify, accelerate and digitalize processes. Three important projects are about to be completed or will start their pilot phases. With the introduction of the whitecard at selected branches, we have substantially improved the process for withdrawing cash. A further step towards the digitalisation of transactions that usually use confirmation slips was the introduction of signature pads throughout Austria. The layout of the customer zones at the branches will be completely redesigned, with work starting in September throughout Austria. With BKS Bank Connect we have created a digital bank within the bank, and already in the second half-year, it will start making major contributions to the acquisition of new business. Furthermore, we are working on the implementation of measures under the EU's Action Plan: Financing Sustainable Growth and on the next digitalisation projects.

Finally, we would like to inform you of the current status regarding dividend distributions for the full year 2019. On 28 July 2020, the European Central Bank (ECB) prolonged its recommendation to banks not to distribute dividends in 2020 until 1 January 2021. Therefore, from today's perspective, the contingent resolution adopted to distribute dividends to holders of ordinary shares will not be carried out.

Klagenfurt am Wörthersee, 26. August 2020



Herta Stockbauer
Chairwoman of the
Management Board



Dieter Kraßnitzer
Member of the
Management Board



Alexander Novak
Member of the
Management Board

Consolidated Financial Statements pursuant to IFRS

Consolidated Statement of Comprehensive Income 1 January to 30 June 2020 **20**

Consolidated Balance Sheet for the Period ended 30 June 2020 **23**

Consolidated Statement of Changes in Equity **24**

Consolidated Statement of Cash Flows **25**

Notes to the Consolidated Financial Statements of BKS Bank **26**

Management's Responsibility for the Financial Statements **44**

Consolidated Statement of Comprehensive Income 1 January to 30 June 2020

INCOME STATEMENT

in €k	Notes	HY1 2019	HY1 2020	± in %
Interest income applying the effective interest rate method		70,654	71,399	1.1
Other interest income and other similar income		14,763	13,524	-8.4
Interest expenses and other similar expenses		-14,955	-15,373	2.8
Net interest income	(1)	70,463	69,550	-1.3
Impairment charges	(2)	-13,191	-15,384	16.6
Net interest income after impairment charges		57,271	54,166	-5.4
Fee and commission income		31,475	34,425	9.4
Fee and commission expenses		-2,260	-2,455	8.7
Net fee and commission income	(3)	29,215	31,970	9.4
Profit/loss from investments accounted for using the equity method	(4)	20,573	2,511	-87.8
Net trading income	(5)	715	1,492	>100
General administrative expenses	(6)	-61,404	-60,412	-1.6
Other operating income	(7)	3,321	3,160	-4.8
Other operating expenses	(7)	-6,827	-9,620	40.9
Profit/loss from financial assets/liabilities		3,747	-65	>-100
• Profit/loss from financial instruments designated at fair value	(8)	-1,306	465	>100
• Profit/loss from financial assets measured at fair value through profit/loss (mandatory)	(9)	4,147	-2,456	>-100
• Profit/loss from derecognition of financial assets measured at amortised cost	(10)	818	1,437	75.7
• Other profit/loss from financial assets/liabilities	(11)	88	489	>100
Profit for the period before tax		46,610	23,201	-50.2
Income tax expense	(12)	-4,496	-3,413	-24.1
Profit for the period		42,114	19,788	-53.0
Non-controlling interests		-3	-1	-43.7
Profit for the period after non-controlling interests		42,112	19,786	-53.0

OTHER COMPREHENSIVE INCOME

in €k	HY1 2019	HY1 2020	± in %
Profit for the period	42,114	19,788	-53.0
Other comprehensive income	2,842	-1,680	>-100
Items not reclassified to profit or loss for the period	660	1,662	>100
± Actuarial gains/losses in conformity with IAS 19	-2,315	7,575	>100
± Deferred taxes on actuarial gains/losses in conformity with IAS 19	579	-1,899	>-100
± Changes in the fair value of equity instruments measured at fair value	2,147	-6,530	>-100
± Deferred taxes on changes in the fair value of equity instruments measured at fair value	-536	1,695	>100
± Fair value changes due to the default risk of financial liabilities measured at fair value through profit/loss (designated)	79	2,121	>100
± Deferred taxes on fair value changes of financial liabilities designated at FV PL attributable to own credit risk (designated)	-20	-530	>-100
± Share of income and expenses of associates in OCI accounted for using the equity method	725	-770	>-100
Items reclassified to profit or loss for the period	2,182	-3,341	>-100
± Exchange differences	12	-1,781	>-100
± Changes in the fair value of debt instruments measured at fair value	2,368	543	-77.1
± Net change in fair value	2,368	543	-77.1
± Reclassified to profit or loss	-	-	-
± Deferred taxes on changes in the fair value of debt instruments measured at fair value	-589	-102	82.8
± Share of income and expenses of associates in OCI accounted for using the equity method	392	-2,002	>-100
Total comprehensive income	44,956	18,108	-59.7
Non-controlling interests	-3	-1	-43.7
Total comprehensive income after non-controlling interests	44,954	18,107	-59.7

EARNINGS AND DIVIDEND PER SHARE

	30/06/2019	30/06/2020
Average number of shares in issue (ordinary and preference shares)	42,074,277	42,049,155
Earnings per ordinary and preference share in EUR (adjusted for period)	0.99	0.46
Earnings per ordinary and preference share in EUR (annualised)	1.97	0.91

The indicator 'earnings per share' compares consolidated profit for the year with the average number of no-par shares in issue. In the period under review, earnings per share and diluted earnings per share were the same, because no financial instruments with a dilution effect on the shares were in circulation.

QUARTERLY REVIEW

in €k	Q2/2019	Q3/2019	Q4/2019	Q1/2020	Q2/2020
Interest income and similar income	42,034	39,137	41,131	42,737	42,186
Interest expenses and other similar expenses	-7,401	-7,677	-7,211	-7,829	-7,544
Net interest income	34,634	31,459	33,920	34,908	34,642
Impairment charges	-4,997	-3,259	-2,132	-6,251	-9,133
Net interest income after impairment charges	29,636	28,200	31,788	28,657	25,508
Fee and commission income	16,250	15,936	15,802	18,245	16,180
Fee and commission expenses	-1,230	-1,291	-1,442	-1,315	-1,141
Net fee and commission income	15,020	14,645	14,360	16,931	15,039
Profit/loss from investments accounted for using the equity method	11,800	14,949	10,394	-267	2,778
Net trading income	486	462	66	558	934
General administrative expenses	-32,080	-31,255	-28,297	-30,004	-30,407
Other operating income	1,850	1,207	2,329	1,573	1,587
Other operating expenses	-720	-1,279	-978	-6,121	-3,499
Profit/loss from financial assets/liabilities	761	697	-781	-6,426	6,360
• Profit/loss from financial instruments designated at fair value	-1,100	-207	-73	264	201
• Profit/loss from financial assets measured at fair value through profit/loss (mandatory)	909	843	82	-6,531	4,075
• Profit/loss from derecognition of financial assets measured at amortised cost	856	299	-577	-177	1,614
• Other profit/loss from financial assets/liabilities	97	-238	-213	19	470
Profit for the period before tax	26,753	27,628	28,880	4,900	18,301
Income tax expense	-1,951	-3,145	-2,571	-2,368	-1,045
Profit for the period	24,802	24,483	26,310	2,532	17,256
Non-controlling interests	-1	-	-	-1	-
Profit for the period after non-controlling interests	24,801	24,483	26,310	2,531	17,255

Consolidated Balance Sheet for the Period ended 30 June 2020

ASSETS

in €k	Notes	31/12/2019	30/06/2020	± in %
Cash and balances with the central bank	(13)	550,752	748,981	36.0
Receivables from other banks	(14)	200,333	332,703	66.1
• Impairment charges on receivables from other banks	(15)	-118	-311	>100
Receivables from customers	(16)	6,378,787	6,434,882	0.9
• Impairment charges on receivables from customers	(17)	-90,735	-91,815	1.2
Trading assets	(18)	8,755	10,989	25.5
Debt securities and other fixed-interest securities	(19)	890,116	922,343	3.6
• Impairment charges on debt securities	(20)	-337	-534	58.4
Shares and other non-interest-bearing securities	(21)	135,878	138,232	1.7
Investments in entities accounted for using the equity method	(22)	635,931	635,433	-0.1
Intangible assets	(23)	10,960	10,151	-7.4
Property, plant and equipment	(24)	77,842	78,504	0.9
Investment property	(25)	37,374	37,767	1.1
Deferred tax assets	(26)	7,404	6,803	-8.1
Other assets	(27)	14,654	28,575	95.0
Total assets		8,857,596	9,292,706	4.9

EQUITY AND LIABILITIES

in €k	Notes	31/12/2019	30/06/2020	± in %
Payables to other banks	(28)	689,224	962,181	39.6
Payables to customers	(29)	5,813,967	5,914,156	1.7
• thereof savings deposits		1,413,530	1,396,757	-1.2
• thereof other payables		4,400,437	4,517,400	2.7
Liabilities evidenced by paper	(30)	623,792	665,180	6.6
• thereof at fair value through profit or loss		84,237	81,795	-2.9
Trading liabilities	(31)	10,848	13,638	25.7
Provisions	(32)	138,743	125,253	-9.7
Other liabilities	(33)	48,913	67,439	37.9
Subordinated debt capital	(34)	230,584	235,329	2.1
Shareholders' equity		1,301,525	1,309,529	0.6
• Group equity	(35)	1,301,498	1,309,500	0.6
• Non-controlling interests		27	28	5.3
Total equity and liabilities		8,857,596	9,292,706	4.9

Consolidated Statement of Changes in Equity

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in €k	Subscribed capital	Capital reserves	Exchange differences	Fair value reserves	Retained earnings	Profit for the period	Additional equity instruments ¹⁾	Equity
As at 01/01/2020	85,886	241,416	-117	28,331	797,877	92,905	55,200	1,301,498
Distribution ²⁾						-5,048		-5,048
Coupon payments on additional equity instruments					-870			-870
Taken to retained earnings					87,857	-87,857		-
Profit for the period						19,786		19,786
Other comprehensive income			-1,774	-7,018	7,112			-1,680
Capital increase								-
Effect of the equity method					-4,037			-4,037
Change in treasury shares					-130			-130
Issuance of additional equity instruments								-
Reclassification				-561	561			-
Other changes					-20			-20
As at 30/06/2020	85,886	241,416	-1,890	20,752	888,350	19,786	55,200	1,309,500
Status of the fair value OCI reserve (excl. reserves of associates accounted for using the equity method)								13,263
Deferred tax reserve								-3,316

¹⁾ All additional tier 1 bonds issued are classified as equity in conformity with IAS 32.

²⁾ Details of the distribution in 2020 are given in Note (45) Events after the balance sheet date.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in €k	Subscribed capital	Capital reserves	Exchange differences	Fair value reserves	Retained reserves	Profit for the period	Additional equity instruments ¹⁾	Equity
As at 01/01/2019	85,886	241,416	-335	21,338	741,475	77,417	43,500	1,210,696
Distribution						-9,677		-9,677
Coupon payments on additional equity instruments					-870			-870
Taken to retained earnings					67,739	-67,739		-
Profit for the period						42,112		42,112
Other comprehensive income			178	4,978	-2,314			2,842
Capital increase								-
Effect of the equity method					-577			-577
Change in treasury shares					-477			-477
Issuance of additional equity instruments							11,200	11,200
Other changes								-
As at 30/06/2019	85,886	241,416	-157	26,315	804,977	42,112	54,700	1,255,249
Status of the fair value OCI reserve (excl. reserves of associates accounted for using the equity method)								16,554
Deferred tax reserve								-4,198

¹⁾ All additional tier 1 bonds issued are classified as equity in conformity with IAS 32.

Consolidated Statement of Cash Flows

CASH FLOWS

in €k	HY1 2019	HY1 2020
Cash and cash equivalents at end of the preceding period	571,963	550,752
Profit for the period after tax and before non-controlling interests	42,114	19,788
Non-cash items in profit for the period and other valuation adjustments	-70,858	-56,294
Change in assets and liabilities from operating business activities after correction for non-cash items	100,282	240,697
Cash flow from operating activities	71,538	204,191
Cash inflow from sales and redemptions	53,199	20,136
Cash outflow for capital expenditure	-29,026	-72,475
Dividends from entities accounted for using the equity method	6,909	36
Cash flow from investing activities	31,082	-52,303
Capital increase	-	-
Other deposits	11,200	-
Dividend distributions	-9,677	-196
Cash inflow from subordinated liabilities and other financing activities	21,697	46,317
Cash flow from financing activities	23,220	46,121
Effect of exchange rates on cash and cash equivalents	164	220
Cash and cash equivalents at end of preceding period	697,967	748,981

Notes to the Consolidated Financial Statements of BKS Bank

MATERIAL ACCOUNTING POLICIES

I. GENERAL INFORMATION

The interim financial statements of BKS Bank for the period ended 30 June 2020 were prepared in accordance with the principles of the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) as adopted by the EU effective on the reporting date. The relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC) were taken into account. The half-year financial statements comply with IAS 34 "Interim Financial Reporting".

II. EFFECTS OF NEW AND AMENDED STANDARDS

The accounting policies applied in the financial year 2019 were also applied in the first half of the year of 2020. All amendments to standards that became effective as of 1 January 2020 do not have any material effects on the BKS Bank Group.

III. RECOGNITION AND MEASUREMENT METHODS

Group of Consolidated Companies

Besides BKS Bank AG, the consolidated financial statements accounted for a total of 14 entities: 11 consolidated entities, two accounted for using the equity method and one entity accounted for on a proportionate basis. The group of consolidated companies did not change compared to the reporting date 31 December 2019.

Effects of the Covid-19 measures

Apart from health protection measures, the Austrian government and the governments of the countries in which BKS Bank operates – Slovenia, Croatia and Slovakia – took action to contain the economic consequences of the Covid-19 crisis. These measures included state guarantees and statutory deferrals of loan repayments which enormously contribute to bridging the short-term liquidity bottlenecks caused by the Covid-19 crisis. In addition to **statutory loan deferrals**, in individual cases the BKS Bank Group also offered voluntary loan forbearance plans to corporate and retail customers in Austria and abroad. These loan forbearance plans – regardless of whether state mandated or voluntary – usually meet the criteria of a contractual modification pursuant to IFRS 9, because these contractual adjustments change the contractually agreed cash flows of the underlying financial assets. In this context, a differentiation is made between a significant and a non-significant contractual amendment, with the result of a significant contractual amendment being the derecognition of the financial asset and the recognition of a new financial asset. In the case of a non-significant contractual amendment, the difference in amount from the contractual amendment is reported as a modification gains/losses in the income statement. Details are given in the Annual Report 2019 in the chapter "Modifications to Contracts". Furthermore, a loan deferral mandated by law may be considered a concession by the lender to the borrower, and therefore, such a loan deferral alone is not an indicator for a credit impairment of the borrower. At the end of May 2020, the period of application of the loan moratoria mandated by law was prolonged by four months until 31 October 2020. By the end of June 2020, BKS Bank AG had approved more than 1,100 forbearance plans in Austria with a deferred volume of around EUR 26 million.

Further Covid-19 measures in Austria, Slovenia, Croatia and Slovakia are guarantees in favour of credit institutions for bridge loans to enable them to provide fast liquidity for companies. The state guarantees that BKS Bank received in HY1 2020 for newly granted bridge loans are an integral contractual component and the loans guaranteed in this manner are deemed independent financial instruments. Guarantees reduce the amount of loss in the event of default. A guaranteed bridge loan is generally recognized in stage 1 at the time of initial recognition, because these loans are granted exclusively to economically healthy companies. By the end of June 2020, more than 400 bridge loans had been granted in Austria with an outstanding volume of around EUR 60 million.

Expected Credit Loss

The information status on the further development of the Covid-19 crisis is constantly changing and thus the resultant and/or probable economic consequences too. In the first quarter of 2020, a revaluation of the macroeconomic factors considered for calculating the ECL was conducted due to the forecasts of the International Monetary Fund (IMF). At the end of June, the forecast published by the Institute for Advanced Studies (Institut für Höhere Studien, IHS) on the development of economic output (GDP) in Austria and also comparable forecasts for foreign markets were used in the calculation of ECL. Furthermore, in the second quarter, BKS Bank analysed by sector how corporate customers were affected by the Covid-19 crisis. The sectors the hardest hit by the pandemic, namely the hospitality industry, restaurants, arts and entertainment as well as other services were collectively transferred to a different stage depending on how severely they were affected. Therefore, pursuant to IFRS 9.B5.5.1 ff, financial instruments were transferred from stage 1 to stage 2 even if at the individual debtor level no significant increase in credit risk was identified. This collective stage transfer resulted in the allocation of additional risk provisions in an amount of EUR 2.5 million.

FOREIGN SUBSIDIARIES AND BRANCHES AS AT 30 JUNE 2020

in €k	Net interest income	Operating income	Number of employees (FTE)	Profit for the period before tax
Branches abroad				
Slovenia Branch	6,550	10,841	127.4	4,681
Croatia Branch	4,145	4,755	60.8	-492
Slovakia Branch	1,164	1,175	27.3	-247
Subsidiaries				
BKS-leasing d.o.o., Ljubljana	2,187	2,148	17.9	1,159
BKS-leasing Croatia d.o.o., Zagreb	956	1,066	12.3	435
BKS-Leasing s.r.o., Bratislava	663	756	13.9	-350

FOREIGN SUBSIDIARIES AND BRANCHES AS AT 30 JUNE 2019

in €k	Net interest income	Operating income	Number of employees (FTE)	Profit for the period before tax
Branches abroad				
Slovenia Branch	5,665	9,118	127.5	3,955
Croatia Branch	5,209	5,789	59.5	3,196
Slovakia Branch	1,149	1,436	29.3	319
Subsidiaries				
BKS-leasing d.o.o., Ljubljana	2,440	2,551	18.9	1,211
BKS-leasing Croatia d.o.o., Zagreb	1,095	1,176	13.3	448
BKS-Leasing s.r.o., Bratislava	769	846	11.9	-264

IV. OTHER EXPLANATORY NOTES

Forward-looking assumptions and estimates such as yield curves and foreign exchange rates were made to the extent required, and the financial statements were prepared on the basis of the state of knowledge and information at our disposal on the date of record. The assumptions and estimates entering into the financial statements for the period were made on the basis of the state of knowledge and information at our disposal on the reporting date 30 June 2020.

DETAILS OF THE INCOME STATEMENT**(1) NET INTEREST INCOME**

in €k	HY1 2019	HY1 2020	± in %
Lending operations measured at amortised cost	59,363	61,713	4.0
Fixed-interest securities measured at amortised cost	6,769	6,216	-8.2
Fixed-interest securities measured at FV OCI	284	331	16.6
Positive interest expenses ¹⁾	4,239	3,139	-25.9
Total interest income applying the effective interest rate method	70,654	71,399	1.1
Lending operations measured at fair value	1,265	1,078	-14.8
Fixed-interest securities at fair value through profit or loss	223	225	0.6
Leasing receivables	5,400	5,984	10.8
Shares and other non-interest-bearing securities	6,261	4,524	-27.7
Investment property	1,614	1,714	6.2
Total other interest income and other similar income	14,763	13,524	-8.4
Total interest income	85,417	84,923	-0.6
Interest expenses and other similar expenses for			
Deposits from customers and other banks	3,118	2,738	-12.2
Liabilities evidenced by paper	8,751	9,690	10.7
Negative interest income ¹⁾	2,598	2,413	-7.1
Investment property	365	443	21.5
Lease liabilities	124	90	-27.3
Total interest expenses and other similar expenses	14,955	15,373	2.8
Net interest income	70,463	69,550	-1.3

¹⁾ This consists of interest expenses that are positive or interest income that is negative as a result of the historically low interest rates.

(2) IMPAIRMENT CHARGES

in €k	HY1 2019	HY1 2020	± in %
Financial instruments measured at amortised cost			
– Allocation (+)/reversal (-) of impairment charges (net)	13,594	14,989	10.3
Financial instruments measured at fair value OCI			
• Allocation (+)/reversal (-) of impairment charges (net)	11	137	>100
Loan commitments and financial guarantee contracts			
– Allocation (+)/reversal (-) of provisions (net)	-414	258	>100
Impairment charges	13,191	15,384	16.6

The collective stage transfer of the sectors the most severely affected by the Covid-19 pandemic resulted in an additional allocation of EUR 2.5 million in the calculation of the expected credit loss.

(3) NET FEE AND COMMISSION INCOME

in €k	HY1 2019	HY1 2020	± in %
Net fee and commission income:			
Payment services	11,844	11,674	-1.4
Securities operations	8,513	10,470	23.0
Lending operations	8,573	10,001	16.7
Foreign exchange operations	1,763	1,554	-11.9
Other services	783	726	-7.2
Total fee and commission income	31,475	34,425	9.4
Net fee and commission expenses:			
Payment services	1,106	1,000	-9.6
Securities operations	844	1,022	21.1
Lending operations	179	298	66.7
Foreign exchange operations	95	107	13.4
Other services	36	28	-22.8
Total fee and commission expenses	2,260	2,455	8.7
Net fee and commission income	29,215	31,970	9.4

(4) PROFIT/LOSS FROM INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

in €k	HY1 2019	HY1 2020	± in %
Profit/loss from investments accounted for using the equity method	20,573	2,511	-87.8
Profit/loss from investments accounted for using the equity method	20,573	2,511	-87.8

(5) NET TRADING INCOME

in €k	HY1 2019	HY1 2020	± in %
Price-linked transactions	-11	-18	-63.0
Interest rate and currency contracts	726	1,510	>100
Net trading income	715	1,492	>100

(6) GENERAL ADMINISTRATIVE EXPENSES

in €k	HY1 2019	HY1 2020	± in %
Staff costs	40,471	37,611	-7.1
• Wages and salaries	29,110	26,950	-7.4
• Social insurance costs	6,464	6,792	5.1
• Costs of retirement benefits	3,542	2,650	-25.2
• Other social expenses	1,355	1,220	-10.0
Other administrative costs	16,016	17,448	8.9
Depreciation/amortisation	4,917	5,352	8.8
General administrative expenses	61,404	60,412	-1.6

(7) OTHER OPERATING INCOME/EXPENSES

in €k	HY1 2019	HY1 2020	± in %
Other operating income	3,321	3,160	-4.8
Other operating expenses ¹⁾	-6,827	-9,620	40.9
Other operating income/expenses	-3,507	-6,460	84.2

¹⁾ This includes mainly expenses for the resolution mechanism and deposit guarantee scheme.

(8) PROFIT/LOSS FROM FINANCIAL INSTRUMENTS DESIGNATED AT FAIR VALUE

in €k	HY1 2019	HY1 2020	± in %
Profit/loss from the fair value option	-1,306	465	>100
Profit/loss from financial instruments designated at fair value	-1,306	465	>100

(9) PROFIT/LOSS FROM FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT/LOSS (MANDATORY)

in €k	HY1 2019	HY1 2020	± in %
Profit/loss from measurement	4,012	-2,512	>-100
Profit/loss on disposal	134	56	-58.4
Profit/loss from financial assets measured at fair value through profit or loss (mandatory)	4,147	-2,456	>-100

(10) PROFIT/LOSS FROM DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTISED COST

in €k	HY1 2019	HY1 2020	± in %
Receivables from other banks	-	-	-
• thereof profit	-	-	-
• thereof loss	-	-	-
Receivables from customers	818	1,437	75.7
• thereof profit	1,628	1,804	10.8
• thereof loss	-810	-367	-54.7
Debt securities	-	-	-
• thereof profit	-	-	-
• thereof loss	-	-	-
Profit/loss from derecognition of financial assets measured at amortised cost	818	1,437	75.7

(11) OTHER PROFIT/LOSS FROM FINANCIAL ASSETS/LIABILITIES

in €k	HY1 2019	HY1 2020	± in %
Modification gains/losses	88	489	>100
• From financial assets measured at amortised cost	88	489	>100
• From financial assets measured through FV OCI	-	-	-
• From financial liabilities measured at amortised cost	-	-	-
Derecognition gains/losses	-	1	-
• From financial assets measured through FV OCI	-	1	-
• From financial liabilities measured at amortised cost	-	-	-
Other profit or loss from financial assets/liabilities	88	489	>100

(12) INCOME TAX EXPENSE

in €k	HY1 2019	HY1 2020	± in %
Current taxes	-5,106	-3,125	-38.8
Deferred taxes	610	-288	>100
Income tax expense	-4,496	-3,413	-24.1

DETAILS OF THE BALANCE SHEET**(13) CASH AND BALANCES WITH THE CENTRAL BANK**

in €k	31/12/2019	30/06/2020	± in %
Cash in hand	88,253	86,731	-1.7
Credit balances with central banks	462,499	662,251	43.2
Cash and balances with the central bank	550,752	748,981	36.0

(14) RECEIVABLES FROM OTHER BANKS

in €k	31/12/2019	30/06/2020	± in %
Receivables from domestic banks	93,585	94,586	1.1
Receivables from foreign banks	106,748	238,116	>100
Receivables from other banks	200,333	332,703	66.1

(15) IMPAIRMENT CHARGES ON RECEIVABLES FROM OTHER BANKS

in €k	Stage 1	Stage 2	Stage 3	30/06/2020
As at 01/01/2020	105	13	-	118
Additions due to new business	156	8	-	164
Change within stage				
• Allocation/reversal	58	3	-	61
• Disposals due to use	-	-	-	-
Reclassification from one stage to another:				
• Decrease due to credit risk				
– Reclassification from stage 2 to stage 1	1	-1	-	-
– Reclassification from stage 3 to stage 1	-	-	-	-
– Reclassification from stage 3 to stage 2	-	-	-	-
• Increase due to credit risk				
– Reclassification from stage 1 to stage 2	-1	2	-	1
– Reclassification from stage 1 to stage 3	-	-	-	-
– Reclassification from stage 2 to stage 3	-	-	-	-
Disposals due to repayment	-27	-6	-	-33
As at 30/06/2020	292	19	-	311

(16) RECEIVABLES FROM CUSTOMERS**(16.1) RECEIVABLES FROM CUSTOMERS BY CUSTOMER GROUP**

in €k	31/12/2019	30/06/2020	± in %
Corporate and Business Banking	4,978,964	5,004,258	0.5
Retail Banking	1,399,823	1,430,624	2.2
Receivables from customers by customer group	6,378,787	6,434,882	0.9

(16.2) RECEIVABLES FROM CUSTOMERS BY MEASUREMENT CATEGORY

in €k	31/12/2019	30/06/2020	± in %
Financial assets measured at amortised cost	6,241,353	6,297,829	0.9
Financial assets measured at fair value through profit or loss (designated)	79,078	78,179	-1.1
Financial assets measured at fair value through profit or loss (mandatory)	58,356	58,874	0.9
Receivables from customers by measurement category	6,378,787	6,434,882	0.9

(17) IMPAIRMENT CHARGES ON RECEIVABLES FROM CUSTOMERS

in €k	Stage 1	Stage 2	Stage 3	30/06/2020
As at 01/01/2020	15,111	11,252	64,371	90,734
Additions due to new business	2,961	1,330	-	4,291
Change within stage				
• Allocation/reversal	2,110	-993	-1,275	-158
• Disposals due to use	-	-	-9,404	-9,404
Reclassification from one stage to another:				
• Decrease due to credit risk				
– Reclassification from stage 2 to stage 1	444	-1,814	-	-1,370
– Reclassification from stage 3 to stage 1	5	-	-68	-63
– Reclassification from stage 3 to stage 2	-	62	-152	-90
• Increase due to credit risk				
– Reclassification from stage 1 to stage 2	-1,276	8,113	-	6,837
– Reclassification from stage 1 to stage 3	-20	-	1,812	1,792
– Reclassification from stage 2 to stage 3	-	-219	3,205	2,986
Disposals due to repayment	-2,056	-727	-958	-3,741
As at 30/06/2020	17,279	17,004	57,531	91,814

(18) TRADING ASSETS

in €k	31/12/2019	30/06/2020	± in %
Positive fair values of derivative financial products	8,755	10,989	25.5
• Currency contracts	1,515	3,486	>100
• Interest rate contracts	-	-	-
• Fair value option	7,240	7,504	3.6
Trading assets	8,755	10,989	25.5

(19) DEBT SECURITIES AND OTHER FIXED-INTEREST SECURITIES

in €k	31/12/2019	30/06/2020	± in %
Financial assets measured at amortised cost	797,761	829,668	4.0
Financial assets measured at fair value through profit or loss (designated)	21,586	21,639	0.2
Financial assets measured at FV OCI	70,720	70,995	0.4
Financial assets measured at fair value through profit or loss (mandatory)	50	41	-18.5
Debt securities and other fixed-interest securities	890,116	922,343	3.6

(20) IMPAIRMENT CHARGES ON DEBT SECURITIES

in €k	Stage 1	Stage 2	Stage 3	30/06/2020
As at 01/01/2020	337	-	-	337
Additions due to new business	39	-	-	39
Change within stage				
• Allocation/reversal	159	-	-	159
• Disposals due to use	-	-	-	-
Reclassification from one stage to another:				
• Decrease due to credit risk				
– Reclassification from stage 2 to stage 1	-	-	-	-
– Reclassification from stage 3 to stage 1	-	-	-	-
– Reclassification from stage 3 to stage 2	-	-	-	-
• Increase due to credit risk				
– Reclassification from stage 1 to stage 2	-	-	-	-
– Reclassification from stage 1 to stage 3	-	-	-	-
– Reclassification from stage 2 to stage 3	-	-	-	-
Disposals due to repayment	-1	-	-	-1
As at 30/06/2020	534	-	-	534

(21) SHARES AND OTHER NON-INTEREST BEARING SECURITIES

in €k	31/12/2019	30/06/2020	± in %
Financial assets measured at fair value through profit or loss (mandatory)	43,687	47,940	9.7
Financial assets measured at FV OCI	92,190	90,293	-2.1
Shares and other non-interest-bearing securities	135,878	138,232	1.7

(22) INVESTMENTS IN ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD

in €k	31/12/2019	30/06/2020	± in %
Oberbank AG	407,340	398,819	-2.1
Bank für Tirol und Vorarlberg AG	228,591	236,614	3.5
Investments in entities accounted for using the equity method	635,931	635,433	-0.1

(23) INTANGIBLE ASSETS

in €k	31/12/2019	30/06/2020	± in %
Intangible assets	10,960	10,151	-7.4
Intangible assets	10,960	10,151	-7.4

(24) PROPERTY, PLANT AND EQUIPMENT

in €k	31/12/2019	30/06/2020	± in %
Property	8,777	8,774	0.0
Buildings	37,764	37,056	-1.9
Other property, plant and equipment	9,031	10,542	16.7
Right-of-use assets für leased real estate	22,269	22,132	-0.6
Property, plant and equipment	77,842	78,504	0.9

(25) INVESTMENT PROPERTY

in €k	31/12/2019	30/06/2020	± in %
Property	7,978	7,978	-
Buildings	29,396	29,790	1.3
Investment property	37,374	37,767	1.1

(26) DEFERRED TAX ASSETS

in €k	31/12/2019	30/06/2020	± in %
Deferred tax assets	7,404	6,803	-8.1

(27) OTHER ASSETS

in €k	31/12/2019	30/06/2020	± in %
Other assets	9,905	25,257	>100
Deferred items	4,748	3,319	-30.1
Other assets	14,654	28,575	95.0

(28) PAYABLES TO OTHER BANKS

in €k	31/12/2019	30/06/2020	± in %
Payables to domestic banks	611,321	878,774	43.8
Payables to foreign banks	77,903	83,407	7.1
Payables to other banks	689,224	962,181	39.6

(29) PAYABLES TO CUSTOMERS

in €k	31/12/2019	30/06/2020	± in %
Savings deposits	1,413,530	1,396,757	-1.2
• Corporate and business banking customers	172,047	154,637	-10.1
• Retail banking customers	1,241,483	1,242,120	0.1
Other liabilities	4,400,437	4,517,400	2.7
• Corporate and business banking customers	3,150,069	3,203,035	1.7
• Retail banking customers	1,250,368	1,314,365	5.1
Payables to customers	5,813,967	5,914,156	1.7

(30) LIABILITIES EVIDENCED BY PAPER

in €k	31/12/2019	30/06/2020	± in %
Bonds issued	552,404	595,618	7.8
Other liabilities evidenced by paper	71,388	69,562	-2.6
Liabilities evidenced by paper	623,792	665,180	6.6

(31) TRADING LIABILITIES

in €k	31/12/2019	30/06/2020	± in %
Negative fair values of derivative financial instruments	10,848	13,638	25.7
• Currency contracts	3,077	5,077	65.0
• Interest rate contracts	-	-	-
• Fair value option	7,771	8,561	10.2
Trading liabilities	10,848	13,638	25.7

(32) PROVISIONS

in €k	31/12/2019	30/06/2020	± in %
Provisions for post-employment benefits and similar obligations	75,604	67,359	-10.9
Provisions for taxes (current taxes)	3,622	313	-91.4
Provision for guarantees and credit facilities	1,773	2,032	14.6
Other provisions	57,744	55,549	-3.8
Provisions	138,743	125,253	-9.7

ACTUARIAL ASSUMPTIONS

± in %	31/12/2019	30/06/2020
Financial assumptions		
Interest rate	1.30%	1.46%
Salary trend of active staff	2.99%	2.00%
Pensions trends	2.00%	1.50%
Career development	0.25%	0.25%
Demographic assumptions		
Retirement age	65 years	65 years
Mortality table	AVÖ 2018	AVÖ 2018

(33) OTHER LIABILITIES

in €k	31/12/2019	30/06/2020	± in %
Other liabilities	21,854	41,433	89.6
Deferred items	4,661	3,669	-21.3
Leasing liabilities	22,398	22,337	-0.3
Other liabilities	48,913	67,439	37.9

(34) SUBORDINATED DEBT CAPITAL

in €k	31/12/2019	30/06/2020	± in %
Tier 2 capital	210,584	215,329	2.3
Hybrid capital	20,000	20,000	-
Subordinated debt capital	230,584	235,329	2.1

Subordinated debt capital is reported with accrued interest. The nominal value was EUR 231.8 million after EUR 227.7 million in the preceding year.

(35) SHAREHOLDERS' EQUITY

in €k	31/12/2019	30/06/2020	± in %
Subscribed capital	85,886	85,886	-
• Share capital	85,886	85,886	-
Capital reserves	241,416	241,416	-
Retained earnings and other reserves	919,023	927,027	0.9
Additional equity instruments (AT 1 bond)	55,200	55,200	-
Shareholders' equity before non-controlling interests	1,301,525	1,309,529	0.6
Non-controlling interests	-27	-28	5.3
Shareholders' equity	1,301,498	1,309,500	0.6

The share capital is represented by 41,142,900 ordinary no-par voting shares and 1,800,000 non-voting no-par preference shares. Each share has a nominal value of EUR 2.0. Capital reserves contain premiums from the issuance of shares. Retained earnings and other reserves consist essentially of reinvested profits. Additional equity instruments refer to the additional tier 1 bonds, which are classified as equity under IAS 32.

RISK REPORT

The quantitative information in the reports pursuant to IFRS 7.31 to 7.42 is based on the internal reporting for overall bank risk management.

(36) LOAN QUALITY BY CLASS OF RECEIVABLE AS AT 30 JUNE 2020

Risk position by rating in €k	AA-A1	1a-1b	2a-2b	3a-3b	4a-4b	5a-5c	No rating	Total
Receivables from customers	60,425	1,688,597	2,551,406	2,115,456	360,906	148,317	1,007	6,926,115
Credit lines promised	12,705	52,303	71,268	49,091	3,929	3,033	14	192,342
Receivables from banks	175,968	113,097	52,618	4,327	-	-	-	346,011
Securities and funds	752,021	133,597	16,048	4,063	41	-	-	905,769
Equity investments	695,516	22,449	2,155	62	-	-	1,484	721,667
Total	1,696,635	2,010,043	2,693,495	2,173,000	364,876	151,350	2,506	9,091,904

LOAN QUALITY BY CLASS OF RECEIVABLE AS AT 31 DECEMBER 2019

Risk position by rating in €k	AA-A1	1a-1b	2a-2b	3a-3b	4a-4b	5a-5c	No rating	Total
Receivables from customers	57,122	1,712,863	2,505,442	2,066,875	286,915	173,019	2,029	6,804,265
Credit lines promised	6,997	45,021	62,778	44,712	1,827	759	16	162,110
Receivables from banks	116,228	88,325	4,848	5,537	-	-	-	214,938
Securities and funds	740,058	116,264	13,402	4,247	50	-	-	874,021
Equity investments	697,379	16,801	8,193	164	-	-	1,532	724,069
Total	1,617,784	1,979,273	2,594,662	2,121,535	288,792	173,778	3,576	8,779,400

BKS Bank's default definition corresponds to the definition provided in CRR Article 178. Receivables were therefore deemed to be in default if they were more than 90 days overdue and the overdue amount was at least 2.5 per cent of the agreed line and at least EUR 250. Furthermore, BKS Bank also classified receivables as in default if it assumed that the debtor would not be able to repay the full amount of the loan to the bank.

At the end of June, the non-performing loan ratio was 2.1% (31/12/2019: 2.4%). The calculation is based on non-performing loans in the rating classes 5a to 5c of the BKS Bank rating system (default classes). We calculate the NPL ratio according to the risk dashboard template of the EBA. The reference values represent receivables on the balance sheet from the public sector, central banks, credit institutions and customers.

Cover for the loss potential of non-performing loans is indicated by the coverage ratio. Coverage Ratio I represents risk provisions allocated in relation to the total NPL position. It was 37.1% on 30 June 2020 (31/12/2019: 37.2%). Additionally, we use Coverage Ratio III as an internal benchmark which also includes internal collateral in the calculation. This ratio was 85.0% as at 30 June 2020 (31/12/2019: 88.2%).

(37) REGULATORY INTEREST RATE RISK IN % OF OWN FUNDS

Currency	31/12/2019	30/06/2020
EUR	2.46%	2.74%
CHF	0.25%	0.30%
USD	-0.03	0.03%
JPY	-	-
Other	-	-
Total	2.68%	3.01%

(37.1) VALUE-AT-RISK FIGURES - INTEREST RATE RISK¹⁾

in €k	31/12/2019	30/06/2020
Value-at-risk figures - interest rate risk	30,890	24,831

¹⁾ Including credit spread risks

Value-at-risk with respect to interest rate risk is measured on the basis of a historical simulation of the changes in market prices observed in the preceding 1,000 days and computed on a holding period of 90 days with a confidence level of 95%.

(38) VALUE-AT-RISK FIGURES - EQUITY PRICE RISK

in €k	31/12/2019	30/06/2020
Value-at-risk figures - Equity price risk	2,351	2,982

Value-at-risk with respect to equity price risk is measured on the basis of a historical simulation of the changes in market prices observed in the preceding 1,000 days and computed on a holding period of 90 days with a confidence level of 95%.

(39) VALUE-AT-RISK FIGURES - FOREIGN CURRENCY PRICE RISK

in €k	31/12/2019	30/06/2020
Value-at-risk figures - Foreign currency risk	699	311

Value-at-risk with respect to foreign currency positions is measured on the basis of a historical simulation of the changes in market prices observed in the preceding 1,000 days and computed on a holding period of 90 days with a confidence level of 95%.

(40) INDICATORS FOR MANAGING LIQUIDITY RISK

	31/12/2019	30/06/2020
Deposit concentration	0.38	0.37
Loan-to-deposit ratio (LDR)	91.2%	89.9%
Liquidity coverage ratio (LCR)	151.8%	154.7%
Net stable funding ratio (NSFR)	112.4%	113.8%

(41) OPERATIONAL RISK AND ICT RISKS BY EVENT CATEGORY¹⁾

in €k	31/12/2019	30/06/2020
Fraud	67	29
Employment practices and workplace safety	68	250
Customers, products, business practices	1,453	-1,774
Property damage	27	-
System failures	10	4
Settlement, sales and process management	315	167

¹⁾ Excluding credit risk, after refunds

The negative value in the item "Customers, products and business practices" resulted from the partial reversal of reserves from the preceding years of EUR 2.0 million.

ADDITIONAL INFORMATION**(42) SEGMENT REPORT**

Segment reporting is based on the organisational structure of the Group that underlies its internal management reporting system.

SEGMENT RESULTS HY1 2020

in €k	Retail Banking	Corporate and Business Banking	Financial Markets	Other	Total
Net interest income	14,206	54,495	1,398	1,962	72,061
• thereof profit/loss from entities accounted for using the equity method	-	-	2,511	-	2,511
Impairment charges	-290	-14,668	-427	-	-15,384
Net fee and commission income	14,615	16,719	-94	730	31,970
Net trading income	-	-	1,492	-	1,492
General administrative expenses	-27,040	-26,262	-4,940	-2,169	-60,412
Balance of other operating income/expenses	715	290	-19	-7,447	-6,460
Profit/loss from financial assets/liabilities	123	-86	-103	-	-65
Profit for the period before tax	2,330	30,488	-2,693	-6,924	23,201
Average risk-weighted assets	885,640	3,425,382	666,498	157,700	5,135,219
Average allocated equity	108,048	417,897	740,010	40,105	1,306,059
ROE based on profit for the period	4.3%	14.6%	-	-	4.6%
Cost/income ratio	91.5%	36.7%	177.9%	-	61.0%
Risk/earnings ratio	2.0%	26.9%	30.5%	-	21.4%

SEGMENT RESULTS HY1 2019

in €k	Retail Banking	Corporate and Business Banking	Financial Markets	Other	Total
Net interest income	13,277	52,789	23,340	1,629	91,035
• thereof profit/loss from entities accounted for using the equity method	-	-	20,573	-	20,573
Impairment charges	-225	-13,061	95	-	-13,191
Net fee and commission income	12,371	16,088	-48	804	29,215
Net trading income	-	-	715	-	715
General administrative expenses	-26,712	-25,527	-4,066	-5,099	-61,404
Balance of other operating income/expenses	1,068	483	-12	-5,046	-3,507
Profit/loss from financial assets/liabilities	-	-	2,659	1,088	3,747
Profit for the period before tax	-221	30,772	22,683	-6,624	46,610
Average risk-weighted assets	639,103	3,375,672	841,837	109,100	4,965,711
Average allocated equity	77,346	408,123	720,337	27,192	1,232,998
ROE based on profit for the period	-	15.1%	6.3%	-	7.2%
Cost/income ratio	100.0%	36.8%	16.9%	-	52.3%
Risk/earnings ratio	1.7%	24.7%	-	-	14.5%

Method: Net interest income is broken down using the market interest rate method. The costs incurred are allocated to the business areas in which these costs originate. Returns on maturity transformation are allocated to the Financial Markets segment. Capital is allocated based on regulatory parameters.

The average allocated equity carries 5% interest and is recognised in net interest income as return on equity invested. The profit for the respective segment is measured based on the profit before tax earned in the segment.

Apart from the cost/income ratio, return on equity is one of the principal benchmarks for managing the business segments. Segment reporting is based on our internal management processes. The Management Board as a whole is responsible for the enterprise's management. The reports used for internal management purposes comprise the following in detail:

- Monthly reporting of results at the profit centre level
- Quarterly reports for all relevant risk types
- Ad-hoc reports of exceptional events

Corporate and Business Banking

In Corporate and Business Banking, there were roughly 24,200 corporate and business banking customers as at 30 June 2020. BKS Bank was originally conceived as a corporate and business bank, therefore, this business segment is still the bank's most important source of income. Today, corporate and business banking customers still account for a large part of the loan portfolio and contribute substantially to profits. Also reported in this segment - apart from the income and expense components of BKS Bank AG from business with corporates and business customers - are income and expenses of the leasing companies provided they relate to transactions with corporate and business customers.

Retail Banking

In the Retail Banking segment, all income and expense components of BKS Bank AG, BKS-Leasing Gesellschaft m.b.H., BKS-leasing d.o.o., BKS-leasing Croatia d.o.o. and BKS-Leasing s.r.o. from business with retail customers, wage and salary earners, and members of the health professions are reported in Retail Banking. At the end of June 2020, this segment had around 167,000 customers.

Financial Markets

The financial markets segment includes the profits from BKS Bank AG's proprietary trading activities, from treasury securities, from equity investments, from derivatives in the banking book and from interbank transactions as well as from income from interest-rate term structure management.

The segment **Other** includes items of income and expenses that cannot be allocated to the other segments and those contributions to profit that cannot be attributed to any other operation.

(43) RELATED PARTY DISCLOSURES

in €k	Outstanding balances as at		guarantees received		guarantees provided	
	as at 31/12/2019	as at 30/06/2020	as at 31/12/2019	as at 30/06/2020	as at 31/12/2019	as at 30/06/2020
Non-consolidated subsidiaries			-	-	-	-
Receivables	24,529	37,430				
Liabilities	4,003	4,979				
Associates			-	-	-	-
Receivables	4,425	8,368				
Liabilities	3,690	82,852				
Members of the Management Board			-	-	-	-
Receivables	1,113	1,083				
Liabilities	2,361	2,770				
Other related parties			-	-	-	-
Receivables	173	505				
Liabilities	805	759				

LOANS AND ADVANCES GRANTED

in €k	31/12/2019	30/06/2020	± in %
Loans and advances granted to members of the Management Board	20	18	-10.0
Loans and advances granted to members of the Supervisory Board	184	175	-4.9
Loans and advances granted	204	193	-5.4

Transactions with related parties were conducted on arm's length terms. During the reporting period, no provisions for doubtful receivables and no expenses on irrecoverable or doubtful receivables were recognised in connection with related parties.

(44) CONTINGENT LIABILITIES AND COMMITMENTS

in €k	31/12/2019	30/06/2020	± in %
Guarantees	463,620	524,816	13.2
Letters of credit	3,473	7,087	>100
thereof liabilities evidenced by paper	467,093	531,903	13.9
Other credit risks	1,324,057	1,598,623	20.7
Credit risks	1,324,057	1,598,623	20.7

(45) EVENTS AFTER THE BALANCE SHEET DATE

At the end of March 2020, the European Central Bank (ECB) issued a statement recommending that companies should not distribute dividends for the financial years 2019 and 2020 until at least 1 October 2020. Therefore, the following decision was taken at the annual general meeting of BKS Bank on 29 May 2020: under the condition precedent that (i) the recommendation of the European Central Bank on discretionary dividend distributions (Recommendation of the European Central Bank of 27 March 2020 on dividend distributions during the COVID-19 pandemic and repealing Recommendation ECB/2020/1 (ECB/2020/19) 2020/C 102/01) no longer applies to BKS Bank AG on 31 December 2020 or earlier, and that (ii) at the time the aforementioned condition precedent takes effect there is no law imposing a ban on dividend distributions, the Bank will distribute a dividend of EUR 0.12 on every eligible ordinary share. On 28 July 2020, the European Central Bank (ECB) prolonged the recommendation until 1 January 2021 that banks should refrain from carrying out dividend distributions in 2020. As a consequence of this recommendation, there will not be any dividend distribution in 2020 from today's standpoint. It is qualified as an event after the reporting date for the second half-year. The distribution reported as at 30 June 2020 in the consolidated statement of changes in equity is therefore retracted provided there is no decision to the contrary.

The Financial Market Authority (FMA) banned Commercialbank Mattersburg im Burgenland Aktiengesellschaft from conducting any business operations with immediate effect as of 14 July 2020 after irregularities were found in the financial accounting of the past years. To cover customer deposits, the deposit insurance scheme took effect that insures EUR 100,000 per depositor. The damage to be covered by the deposit insurance scheme is estimated at around EUR 490 million. Regarding the funds necessary to replenish the deposit insurance scheme, the FMA issued an official notice on 30 July 2020 stating the distribution of the funds needed over the coming five years to replenish the funds. BKS Bank has taken the amount for 2020 already into account in the interim report for the first half of the year. Some 800 customers of Commercialbank have opened new accounts with BKS Bank to date.

(46) FAIR VALUES

Financial assets and debt measured at fair value

30/06/2020

in €k	Level 1 'Market value'	Level 2 'Based on market data'	Level 3 'Internal measurement method'	Total fair value
Assets				
Receivables from customers				
• at fair value through profit or loss (mandatory)	-	-	58,874	58,874
• at fair value through profit or loss (designated)	-	-	78,179	78,179
Trading assets (derivatives)	-	10,989	-	10,989
Debt securities and other fixed-interest securities				
• at fair value through profit or loss (mandatory)	41	-	-	41
• at fair value through profit or loss (designated)	21,639	-	-	21,639
• at fair value OCI	69,987	-	1,007	70,995
Shares and other non-interest-bearing securities				
• at fair value through profit or loss (mandatory)	47,940	-	-	47,940
• at fair value OCI	4,059	3,189	83,045	90,293
Equity and liabilities				
Liabilities evidenced by paper - at fair value through profit or loss (designated)	-	-	81,795	81,795
Trading liabilities	-	13,638	-	13,638

31/12/2019

in €k	Level 1 'Market value'	Level 2 'Based on market data'	Level 3 'Internal measurement method'	Total fair value
Assets				
Receivables from customers				
• at fair value through profit or loss (mandatory)	-	-	58,356	58,356
• at fair value through profit or loss (designated)	-	-	79,078	79,078
Trading assets (derivatives)	-	8,755	-	8,755
Debt securities and other fixed-interest securities				
• at fair value through profit or loss (mandatory)	50	-	-	50
• at fair value through profit or loss (designated)	21,586	-	-	21,586
• at fair value OCI	69,701	-	1,018	70,720
Shares and other non-interest-bearing securities				
• at fair value through profit or loss (mandatory)	43,687	-	-	43,687
• at fair value OCI	4,053	4,094	84,042	92,190
Equity and liabilities				
Liabilities evidenced by paper - at fair value through profit or loss (designated)	-	-	84,237	84,237
Trading liabilities	-	10,848	-	10,848

LEVEL 3: MOVEMENTS IN FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

in €k	Receivables from customers at fair value through profit or loss (designated)	Receivables from customers at fair value through profit or loss (mandatory)	Debt securities and other interest-bearing securities at fair value through OCI	Shares and other non-interest-bearing securities at fair value through OCI	Liabilities evidenced by paper at fair value through profit or loss
As at 01/01/2020	79,078	58,356	1,018	84,042	84,237
Income statement ¹⁾	1,313	818	-11	-	-321
Reclassification	-	-	-	-	-
Other comprehensive income	-	-	-	-4,397	-2,121
Purchased/added	-	-	-	3,400	-
Sold/redeemed	-2,212	-300	-	-	-
As at 30/06/2020	78,179	58,874	1,007	83,045	81,795

¹⁾ Measurement changes in profit/loss; financial instruments reported in the item profit/loss from financial instruments designated at fair value and in the item profit/loss from financial assets measured at fair value through profit or loss (mandatory).

LEVEL 3: MOVEMENTS IN FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

in €k	Receivables from customers at fair value through profit or loss (designated)	Receivables from customers at fair value through profit or loss (mandatory)	Debt securities and other interest-bearing securities at fair value through OCI	Shares and other non-interest-bearing securities at fair value through OCI	Liabilities evidenced by paper at fair value through profit or loss
As at 01/01/2019	85,287	54,750	-	81,973	84,744
Income statement ¹⁾	442	-740	-	-	-507
Reclassification	-	-	-	-	-
Other comprehensive income	-	-	-	4,827	-
Purchased/added	-	12,988	1,018	700	-
Sold/redeemed	-6,651	-8,642	-	-3,458	-
As at 31/12/2019	79,078	58,356	1,018	84,042	84,237

¹⁾ Measurement changes in profit/loss; financial instruments reported in the item profit/loss from financial instruments designated at fair value and in the item profit/loss from financial assets measured at fair value through profit or loss (mandatory).

Measurement principles and classification

The fair values shown in Level 1 'Market values' were determined using prices quoted on active markets (stock exchange).

If market values are unavailable, fair value is ascertained using customary measurement models based on observable input factors and market data, and are presented in the category Level 2 'Based on Market Data' (e.g. by discounting future cash flows from financial instruments). In general, fair values shown in this category are ascertained on the basis of market data that were observable for the assets or liabilities (e.g. yield curves, foreign exchange rates). In general, items in Level 2 were measured using the present value method.

In Level 3 'internal measurement method', the values of individual financial instruments were measured on the basis of special generally accepted measurement methods. In general, liabilities evidenced by paper in Level 3 were measured on the basis of market data that were observable for these liabilities (e.g. yield curves, foreign exchange rates). The factors affecting the values of positions in Level 3 that were not observable in the market were adjustments on the basis of internal rating procedures to the credit ratings of customers and of BKS Bank itself with respect to liabilities evidenced by paper and the credit spreads derived from them. In general, items in the category Level 3 were measured using the present value method.

Reclassification

Reclassifications between the individual categories were carried out if market values (Level 1) or reliable input factors (Level 2) were no longer available or if market values (Level 1) became newly available for individual financial instruments (e.g. an IPO).

Changes in the ratings of assets and liabilities measured at fair value

Changes in the fair values of securities and loans designated as at fair value through profit or loss arising from default risk were calculated on the basis of the internal ratings of the financial instrument and the remaining time to maturity. The change in the default risk associated with liabilities measured at fair value in the period under review was calculated on the basis of a funding curve specific to BKS Bank and a financial instrument's remaining time to maturity. In the HY1 2020 reporting period, the changes in the ratings of receivables from customers measured at fair value had an effect on the fair value of EUR 0.0 million (31/12/2019: EUR -9 million). In the HY1 2020 reporting period, the change in BKS Bank's credit standing had an effect on the fair value of the liabilities evidenced by paper of -2.1 million (31/12/2019: EUR -0.4 million).

Sensitivity analysis

The sensitivity analysis of receivables from customers measured at fair value results in an accumulated change in value of EUR 0.4 million, assuming an improvement or deterioration in credit rating of 10 basis points in the credit spread (31/12/2019: EUR 0.4 million). An analysis assuming an improvement or deterioration in BKS Bank's rating of 10 basis points in the credit spread would result in an accumulated change in the fair value of the liabilities evidenced by paper designated at fair value of EUR 0.3 million (31/12/2019: EUR 0.4 million).

For level 3 equity instruments in an amount of EUR 25.6 million, the material non-observable parameter is the interest rate. An interest rate increase by 50 basis points reduces the fair value by EUR 1.4 million (31/12/2019: EUR 1.4 million). An interest rate decrease by 50 basis points raises the fair value by EUR 1.6 million (31/12/2019: EUR 1.6 million). For level 3 equity instruments in an amount of EUR 47.5 million, a change to external prices by 10% results in a change in fair value by EUR 3.8 million (31/12/2019: EUR 4.0 million). For level 3 equity instruments in an amount of EUR 9.2 million, the material non-observable parameter is the carrying amount of equity. The remainder refers to immaterial minority investments for which no fair value measurement was applied.

FINANCIAL ASSETS AND LIABILITIES NOT RECOGNISED AT FAIR VALUE

30/06/2020

in €k	Level 1 'Market value'	Level 2 'Based on market data'	Level 3 'Internal measurement method'	Total fair value	Carrying amount 30/06/2020
Assets					
Receivables from other banks ¹⁾	-	-	332,575	332,575	332,392
Receivables from customers ¹⁾	-	-	6,256,679	6,256,679	6,206,015
Debt securities and other fixed-interest securities	886,494	-	-	886,494	829,668
Equity and liabilities					
Payables to other banks	-	-	949,303	949,303	962,181
Payables to customers	-	-	5,913,250	5,913,250	5,914,156
Liabilities evidenced by paper	169,890	351,226	77,703	600,214	583,385
Subordinated debt capital	208,302	3,493	26,155	237,950	235,329

¹⁾ Reduced by spec. impair. allow./ECL

31/12/2019

in €k	Level 1 Market value'	Level 2 'Based on market data'	Level 3 'Internal measurement method'	Total fair value	Carrying amount 31/12/2019
Assets					
Receivables from other banks ¹⁾	-	-	200,272	200,272	200,215
Receivables from customers ¹⁾	-	-	6,237,762	6,237,762	6,150,619
Debt securities and other fixed-interest securities	853,379	-	-	853,379	797,761
Equity and liabilities					
Payables to other banks	-	-	686,495	686,495	689,224
Payables to customers	-	-	5,815,920	5,815,920	5,813,967
Liabilities evidenced by paper	174,003	301,079	81,163	556,244	539,555
Subordinated debt capital	207,211	3,428	26,519	237,158	230,584

¹⁾ Reduced by spec. impair. allow./ECL

Management's Responsibility for the Financial Statements

"We state to the best of our knowledge that the interim consolidated financial statements as at 30 June 2020 prepared in accordance with the relevant financial reporting standards provide a true and fair view of the assets, financial position and result of operations of the BKS Bank Group, and that the Group management report for the period from 1 January to 30 June 2020 provides a true and fair view of the assets, financial position and result of operations of the BKS Bank Group with respect to the key events having taken place during the first half of the financial year and their effects on the interim consolidated financial statements in terms of material risks and uncertainties over the course of the remaining six months of the financial year."

Klagenfurt am Wörthersee, 26 August 2020

The Management Board



Herta Stockbauer
Chairwoman of the Management Board



Dieter Kraßnitzer
Member of the Management Board



Alexander Novak
Member of the Management Board

FINANCIAL CALENDAR 2020

Date	Content
31 March 2020	Publication of the single-entity financial statements and the consolidated financial statements 2019 on the website and in the Official Gazette of the Republic of Austria "Wiener Zeitung"
15 May 2020	Interim report for the period ended 31 March 2020
29 May 2020	81st Annual General Meeting
3 June 2020	Dividend ex-day
4 June 2020	Record date
5 June 2020	Dividend payout day
28 August 2020	Half-year financial report 2020
27 November 2020	Interim report for the period ended 30 September 2020

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